

## Message Text

PAGE 01 STATE 079971  
ORIGIN EA-12

INFO OCT-01 EUR-12 IO-13 ISO-00 AGRE-00 CEA-01 CIAE-00  
COME-00 DODE-00 EB-08 FRB-03 H-01 INR-10 INT-05  
L-03 LAB-04 NSAE-00 NSC-05 PA-01 CTME-00 AID-05  
SS-15 STR-07 ITC-01 TRSE-00 USIA-06 SP-02 SOE-02  
OMB-01 DOE-15 XMB-02 /135 R

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APPROVED BY EA - HEIGNBOTHAM  
EA/J - NPLATT  
EB/OT:SAHMED  
E:JWILSON

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FM SECSTATE WASHDC  
TO AMEMBASSY TOKYO  
INFO USMISSION GENEVA  
AMEMBASSY PARIS  
AMEMBASSY BRUSSELS

C O N F I D E N T I A L STATE 079971

GENEVA FOR USMTN, PARIS FOR USOECD, BRUSSELS FOR USEEC

E.O. 11652: GDS

TAGS: ETRD, EFIN, JA, US

SUBJECT: COOPER-MASUDA MEETING, MARCH 15, 1978

SUMMARY: MITI VICE MINISTER MINORU MASUDA, WHO ACCOMPANIED  
THE IKEDA MISSION, MET WITH UNDERSECRETARY COOPER MARCH 15  
FOR A REVIEW OF ECONOMIC ISSUES. AFTER A PRESENTATION OF  
THE RESULTS OF THE IKEDA MISSION, MASUDA BROUGHT UP MTN.  
BOTH HE AND COOPER AGREED THAT DRIVE TO REACH MTN AGREE-  
MENT BY MID-JULY WOULD BE A CENTRAL ISSUE OVER NEXT FEW  
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PAGE 02 STATE 079971

MONTHS. COOPER SAID GOJ MTN OFFER WAS TOO SMALL, BY THE  
LOGICAL AND HISTORICALLY ACCEPTED MEASUREMENT. MASUDA  
SAID QUESTION OF SAFEGUARDS WAS "MOST SENSITIVE" ISSUE FOR  
JAPAN AND COOPER REPLIED WE WERE MOST INTERESTED IN GOJ  
SUPPORT ON SUBSIDIES ISSUE -- US COULD BE SPARING IN USE  
OF SAFEGUARDS IF U.S. FIRMS WERE PERSUADED "FOREIGN COM-  
PETITORS DID NOT HAVE ACCESS TO NATIONAL TREASURIES". ON  
FOREIGN EXCHANGE MARKETS, COOPER SAID HE WANTED STABLE  
DOLLAR BUT COULD NOT FIX EXCHANGE RATES; GOJ COULD HELP  
STABILIZE YEN BY STRONG GROWTH AND BY INCREASING IMPORTS.

FINALLY, COOPER SAID HE THOUGHT GOJ PROPOSAL TO MAKE ADVANCED PAYMENTS FOR URANIUM ENRICHMENT SERVICES MIGHT BE FEASIBLE AND INVITED DETAILED GOJ PROPOSAL. HE POINTED OUT THAT TRANSACTION, AS WE UNDERSTOOD MECHANICS OF IT AND IMF ACCOUNTING METHODS, WOULD NOT IMMEDIATELY AFFECT THE

CURRENT ACCOUNT NUMBERS. END SUMMARY

1. MR. MASUDA SAID THE IKEDA MISSION EMPHASIZED GOJ AND

JAPANESE BUSINESS SUPPORT FOR RAPID IMPLEMENTATION OF THE STRAUSS-USHIBA JOINT STATEMENT. IN ADDITION TO THE SYMBOLIC VALUE OF THE VISIT, CONCRETE RESULTS WERE ACHIEVED. THE TOTAL OF CONTRACTS SIGNED, OR EXPECTED TO BE SIGNED IN THE NEAR FUTURE AS A RESULT OF THE MISSION'S VISIT, WAS \$1.94 BILLION. THIS FIGURE EXCLUDES GRAIN AND RAW MATERIALS WHICH ARE PURCHASED UNDER LONG TERM AGREEMENTS. OF THIS FIGURE, \$340 MILLION ARE CONTRACTS COMPLETED OR NEAR COMPLETION, \$1.55 BILLION ARE CONTRACTS LIKELY TO BE CONCLUDED WITHIN THE NEXT SIX MONTHS, AND ANOTHER \$50 MILLION ARE CONTRACTS FOR CONSUMER GOODS CONTRACTED OR EXPECTED TO BE CONTRACTED DURING THE VISIT. MASUDA EMPHASIZED THAT IT WAS DIFFICULT TO SPLIT OUT WHAT CONFIDENTIAL

PAGE 03 STATE 079971

WAS "INCREMENTAL" BUSINESS, BUT HE BELIEVED A SUBSTANTIAL AMOUNT WAS. HE SAID THAT THE REAL MEANING OF THE MISSION WAS THAT THE GOJ AND JAPANESE BUSINESS WERE BEGINNING TO REALIZE THE NEED TO REDUCE THE CURRENT ACCOUNT SURPLUS AND TO ASSUME THE RESPONSIBILITY OF A SURPLUS CURRENT ACCOUNT COUNTRY.

2. MR. COOPER AGREED THAT THE MISSION SYMBOLIZED THE GOJ DETERMINATION TO CARRY OUT THE COMMITMENT OF THE STRAUSS/USHIBA AGREEMENT, WHICH THE USG APPRECIATED.

THE IKEDA MISSION WAS A SUCCESS AND RECEIVED GOOD PUBLICITY. MR. COOPER ACKNOWLEDGED THAT IT WAS DIFFICULT TO ASCERTAIN THE AMOUNT OF INCREMENTAL BUSINESS. HE NOTED THAT IT WAS NOT A ROUTINE WAY TO DO BUSINESS BETWEEN THE UNITED STATES AND JAPAN AND THAT IT WOULD BE IMPORTANT FOR US TO WORK TOGETHER TO KEEP THE MOMENTUM OF THE STRAUSS-USHIBA AGREEMENT GOING.

3. BOTH MR. COOPER AND MR. MASUDA AGREED ON THE IMPORTANCE OF ACHIEVING A SUBSTANTIAL MTN AGREEMENT BY MID-JULY. MASUDA SAID MITI AND GOJ WOULD TRY TO CONCLUDE AN AGREEMENT RAPIDLY SO AS TO EXPAND WORLD TRADE AND THEREBY BENEFIT JAPAN. MR. COOPER EMPHASIZED THAT THE MTN WAS VERY IMPORTANT IN THE CURRENT CLIMATE AND THAT WE MUST PUSH FOR SUCCESS. AMBASSADOR STRAUSS WAS DRIVING HARD TO REACH AN AGREEMENT BY MID-JULY, HE SAID, AND WOULD APPRECIATE GOJ COOPERATION.

4. MASUDA SAID THAT GOJ OFFER IN THE MTN COULD BE MEASURED IN DIFFERENT WAYS, BUT THAT GOJ OFFER WAS NOT REALLY AS BAD AS DEPICTED BY US. HE HOPED EARLY MEETING OF EXPERTS IN GENEVA COULD REVIEW THIS QUESTION. MR. COOPER MADE THE FOLLOWING POINTS: (A) THE U.S. TARIFF

MEASUREMENT TECHNIQUE IS THE GENERALLY ACCEPTED MEASUREMENT AND HAS STRONG LOGICAL AND HISTORICAL UNDERPINNING. TARIFF REDUCTIONS RELATIVE TO ACTUAL TRADE VOLUME IS CONFIDENTIAL

PAGE 04 STATE 079971

WHAT MATTERS LOGICALLY AND IS THE MEASUREMENT WHICH WAS DEVELOPED IN THE KENNEDY ROUND AND IN THE TOKYO ROUND, (B) DUTY-FREE JAPANESE IMPORTS FROM THE US SHOULD NOT BE ADDED IN TO LOWER JAPAN'S AVERAGE TARIFF ON PRODUCTS OF INTEREST TO U.S. WE ALSO HAVE MANY DUTY-FREE ITEMS, BUT MOST DO NOT COME FROM JAPAN. WHAT IS IMPORTANT TO US IS TARIFF REDUCTIONS ON MANUFACTURED GOODS. THIS IS CONSISTENT WITH KENNEDY ROUND EXPERIENCE AND WITH TODAY'S NEEDS, I.E. THE NEED TO LOWER JAPAN'S CURRENT ACCOUNT SURPLUS AND TO INCREASE JAPAN'S IMPORTS OF MANUFACTURED GOODS. THE GOJ SHOULD NOT LOSE SIGHT OF THE OBJECTIVE BY LOOKING ONLY AT DETAILS. (C) THERE ARE VARIOUS WAYS OF MEASURING TARIFF OFFERS. THE TECHNICALLY CORRECT WAY WOULD BE TO BASE THEM ON ELASTICITIES OF DEMAND. WE DON'T KNOW THESE EXACTLY AND MUST USE ESTIMATES.

5. SAFEGUARDS AND SUBSIDIES. MASUDA SAID THAT SELECTIVE SAFEGUARDS WAS "MOST SENSITIVE" ISSUE FOR JAPAN IN THE MTN AND THAT IT COULD BECOME A DOMESTIC POLITICAL PROBLEM. HE SAID GOJ BELIEVES U.S. AND EC ARE DISCUSSING SAFEGUARDS WITHOUT JAPANESE PARTICIPATION, THAT JAPAN FEARS NEGATIVE RESULTS FROM THIS, AND THAT JAPAN WOULD LIKE TO BE INCLUDED IN THE TALKS. MASUDA ADDED THAT WHEN AMBASSADOR MACDONALD HAD BEEN IN TOKYO, HIS VIEWS SEEMED CLOSER TO THE GOJ POSITION. BACK IN GENEVA, AT THE UNOFFICIAL AND INFORMAL MINISTERIAL, HE SEEMED TO HAVE SHIFTED TOWARD THE EC POSITION AND THIS DISTURBED THE GOJ. MR. COOPER REPLIED THAT (A) WE ARE CONSULTING EQUALLY WITH THE EC AND WITH THE GOJ ON THE SAFEGUARD ISSUE, (B) WE WOULD PREFER THAT SAFEGUARD PROCEDURES BE USED SPARINGLY, (C) OUR MAJOR INTEREST WAS IN SUBSIDIES ISSUE AND WE WOULD APPRECIATE GOJ SUPPORT HERE. WE HAVE A PROBLEM HERE WITH THE EC, BUT EVEN MORE OF A PROBLEM WITH THE ADVANCED LESS DEVELOPED CONFIDENTIAL

PAGE 05 STATE 079971

COUNTRIES SUCH AS BRAZIL. WE WOULD FIND IT EASIER TO AGREE IN THE MTN TO A SPARING USE OF SAFEGUARD ACTION IF OUR BUSINESSES ARE PERSUADED THAT THEIR FOREIGN COMPETITORS DO NOT "HAVE ACCESS TO THE NATIONAL TREASURY"

THROUGH GOVERNMENT SUBSIDIES.

6. MR. MASUDA THEN TURNED TO INSTABILITY IN FOREIGN EXCHANGE MARKETS. HE NOTED THAT APPRECIATION OF YEN DEPRESSES THE JAPANESE ECONOMY AND MAKES IT DIFFICULT TO ACHIEVE SEVEN PERCENT REAL GROWTH RATE. THIS, IN TURN, REDUCES IMPORTS AND MAKES IT DIFFICULT TO REDUCE CURRENT ACCOUNT SURPLUS. MR. MASUDA REQUESTED MR. COOPER'S VIEWS ON THE EXCHANGE MARKET. MR. COOPER REPLIED THAT WE WOULD LIKE TO SEE A MORE STABLE DOLLAR, AND HAVE NOT BEEN HAPPY WITH SHARP EXCHANGE MOVEMENTS, PARTICULARLY IN THE LAST EIGHT WEEKS. WE DO NOT FEEL WE CAN OR SHOULD FIX A RATE BECAUSE WE DON'T KNOW WHAT RATE TO FIX AND WE CAN'T KNOW BECAUSE THIS DEPENDS ON DIFFERING GROWTH RATES, INFLATION ETC. IF WE CHOOSE A PARTICULAR RATE, WE WOULD INVITE THE MARKET TO TEST IT IN A BIG WAY. THUS WE TRY TO KEEP THE MARKET FROM MOVING ERRATICALLY. WE NEVER QUITE KNOW WHAT EFFECT OUR EFFORTS MAY HAVE. FOR EXAMPLE, THE EFFECT OF THE TREASURY BUNDESBANK STATEMENT ON MARCH 13 WAS DISAPPOINTING. WE UNDERSTAND THAT YEN APPRECIATION CREATES PROBLEMS FOR JAPAN'S GROWTH RATE, BUT INCREASED IMPORTS WOULD REDUCE YEN APPRECIATION. OUR EMPHASIS IS NOT ON YEN APPRECIATION BUT ON GROWTH AND IMPORT FACILITATION. OTHER THINGS WILL ALSO CONTRIBUTE, FOR EXAMPLE, FOREIGN AID AND CAPITAL OUT FLOWS.

7. RESPONDING TO MR. COOPER'S QUERY ON THE JAPANESE ECONOMIC OUTLOOK, MR. MASUDA WAS UPBEAT. HE SAID THAT LARGE GOJ BUDGET, LOWER INTEREST RATES, AND INVENTORY ADJUSTMENT COMPLETED DURING APRIL-JUNE PERIOD WOULD LEAD TO SOLID ECONOMIC PICK-UP BY FALL. HE SAID NEW ORDERS FOR MACHINERY WERE ALREADY BEGINNING TO INCREASE IN SOME  
CONFIDENTIAL

PAGE 06 STATE 079971

SECTORS.

8. TURNING TO THE CURRENT ACCOUNT SURPLUS, MR. MASUDA SAID THE JFY 77 SURPLUS WOULD BE \$12 BILLION. HE SAID THERE MAY BE "SOME TIME DELAY PROBLEM", BUT THAT JAPAN WOULD BE MOVING TOWARD AND HOPED TO ACHIEVE ITS \$6 BILLION TARGET. MR. COOPER EXPRESSED THE HOPE THAT JAPAN'S ACHIEVING A SUBSTANTIAL REDUCTION IN ITS CURRENT ACCOUNT SURPLUS WOULD NOT BE TOO FAR IN THE FUTURE. IN RESPONSE, MR. MASUDA SAID THAT JAPAN WAS BEING CRITICIZED FOR ITS LARGE CURRENT ACCOUNT SURPLUS BY COUNTRIES ALL OVER THE WORLD, NOT JUST BY THE U.S. THE GOJ HAD DEVISED AN EMERGENCY IMPORT PROGRAM TO HANDLE THE PROBLEMS CAUSED BY THE LAG IN ADJUSTMENT. HE INQUIRED, FOR INSTANCE, ABOUT ADVANCED PAYMENT FOR U.S. URANIUM ENRICHMENT SERVICES AS PART OF THIS EMERGENCY IMPORT PROGRAM. AFTER CLARIFYING THAT THE PAYMENT WAS TO BE FOR ENRICHMENT SERVICES RATHER THAN URANIUM, MR. COOPER RESPONDED THAT WE HAD NO

OBJECTION TO THE PROPOSAL AS WE UNDERSTOOD IT. HE EMPHASIZED AGAIN THAT IT WAS IMPORTANT TO WORK ON THE UNDERLYING ECONOMIC FUNDAMENTALS (GROWTH AND STIMULATION OF IMPORTS) BUT THAT THE GOJ PROPOSED ADVANCE PAYMENT COULD "EVEN BE USEFUL" AND MIGHT BE HELPFUL IN EXCHANGE MARKETS. MR. COOPER REMARKED, HOWEVER, THAT AS WE UNDERSTOOD MECHANICS OF SUCH A TRANSACTION AND STANDARD BALANCE OF PAYMENTS ACCOUNTING METHODS, THE PAYMENTS WOULD NOT SHOW UP IN THE CURRENT ACCOUNT ANY SOONER UNDER THIS METHOD.

9. MR. COOPER THEN ASKED MR. MASUDA ABOUT "SUCCESS STORIES" WHICH THE TRADE FACILITATION COMMITTEE WAS TO GENERATE. HE SAID THAT PART OF OUR PROBLEM WITH CONGRESS (AND AMERICAN BUSINESSES) ON TRADE POLICY COME FROM CONFIDENTIAL

PAGE 07 STATE 079971

THEIR PERCEPTIONS THAT US FIRMS ARE TREATED UNFAIRLY BY GOJ BUREAUCRACY. AS AN EXAMPLE, HE RAISED THE CASE OF ABBOTT LABORATORIES, AND NOTED THAT FOUR YEARS WAS A LONG TIME TO WAIT TO RECEIVE APPROVAL ON THE APPLICATION IN QUESTION. HE URGED MR. MASUDA TO GIVE THIS CASE, AND THE OPERATION OF THE TRADE FACILITATION COMMITTEE IN GENERAL, HIS PERSONAL ATTENTION SO AS TO SHOW THE AMERICAN BUSINESS COMMUNITY THAT JAPAN WAS INDEED AN OPEN MARKET.

10. IN ADDITION TO MR. COOPER, AMERICAN PARTICIPANTS WERE ERLAND HEGINBOTHAM (EA), SHARON AHMAD (EB/OT), NICHOLAS PLATT (EA/J), JOHN WILSON (E), HERBERT COCHRAN (EA/J). ON JAPANESE SIDE, MR. KAWAHARA (COMMERCIAL MINISTER), MR. TANABE (COMMERCIAL COUNSELOR), MR. MATSUURA (ECONOMIC COUNSELOR), AND MR. SATO (ASSISTANT TO MR.MASUDA) WERE PRESENT. COOPER

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## Message Attributes

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